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Non-oil exports promotion. Concepts, issues and prospects.

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NON-OIL EXPORTS' PROMOTION: CONCEPTS, ISSUES AND PROSPECTS

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INTRODUCTION

The most recent data available on the structure of the Nigerian economy are those for year 2000, which reflect the current structure and the main features of the economy. (see Annex 1) They indicate that the agricultural sector accounted for 41.5% of the nation's GDP, while manufacturing contributed 5.95%, finance and insurance, 9.59%, crude petroleum, 10.42%, wholesale and retail trade, 11.58%, and government services 9.35%. What is instructive from the data is that, in spite of the seeming pre-eminence of the oil sector in the Nigerian economy, its contribution to national output does not correspond to this perception, using such developmental parameters as contribution to GDP.

It is a well-known fact that primary non-oil products dominated Nigeria's export trade and formed the bedrock of her economy in pre and immediate post-independence era. Ironically, during the 50s and 60s when primary commodities like cocoa, cotton, groundnut and palm-oil occupied the pride of place in the country's economic output structure, the economy was buoyant, while economic and social infrastructures, including roads, power, education, health, etc. were functioning properly.

The economy then was so sound that the Federal Government prosecuted the many capital projects without resorting to borrowing. Indeed, that era also witnessed the establishment and growth of Nigerian export industries, which were invariably resource-based, namely, cocoa, palm-oil, cotton and groundnut. However, an analysis of the components of the Nigerian export portfolio in the last decades, reveals that the export sector has been dominated by oil. Since the late 70s, non-oil exports have consistently contributed less than 10% of the total export earnings. (See Annex 2). Indeed, since 1992, non-oil contribution to total export earnings has been less than 3%. On all accounts, Nigeria's performance in export diversification has been very poor. The current scenario is definitely not in the best interest of the Nigerian economy, particularly against the backdrop of the dwindling value of the Naira and declining commodity prices. Total dependence on a single product for export earnings, exposes a country to the dangers of severe external shocks as illustrated by our current experience. It is thus paramount that Nigeria needs to diversify her export base, not only as a hedge against the risk of external shocks but also a means of increasing export earnings and strengthening the Naira value.

The prospects of rapid economic recovery and development in the new millennium that is potent enough to promote and sustain democracy in Nigeria depends, largely, on the diversification of the Nigerian economy, and this can only be effectively realized through the revitalization and promotion of non-oil exports. This fact is further fueled by the huge contribution of the non-oil sector of the economy to the GDP, which for the past decades had average over 80% (See Annex 1).

This paper seeks to explore the concepts, issues and prospects of non-oil exports' promotion. Accordingly, the paper is presented in four parts including this introduction. In part 2, some concepts in non-oil export promotion are discussed. Part 3 will discuss policy issues is non-oil exports promotion while part 4 will be on prospects and conclusion.

2. SOME CONCEPTS IN NON-OIL EXPORTS' PROMOTION

A review of some theoretical and conceptual issues in export development and promotion will provide a concise and relevant background to the focus of this paper which is on non-oil export promotion and performance in Nigeria. The issues discussed include the definition of exports, the relationship between exports and economic growth and the traditional techniques of export promotion.

2.1 Definition of Exports

Exports are the goods and services produced in one country and sold to earn foreign exchange, which can be used to purchase goods and services from another country. By this definition, it is implied that countries tend to specialize in the production of those goods and services in which they are relatively most efficient. Consequently, what constitutes exports to a country may not be the same as those of another country because of the variations in domestic factor endowments. For a typical developing economy, exports can be categorized into two broad groups: primary commodity exports and manufactures. The bulk of the primary component consists of agricultural commodities. Within this group, some commodities are processed and are therefore semi-manufactured. Primary commodity exports would also include minerals, such as petroleum, tin-ore,

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coal, etc. The manufactured exports include products of modern industrial technologies and include goods such as textiles, chemicals, beverages and petroleum products. For countries such as Nigeria that have crude oil resources, the bulk of which is exported, it is usually presumed that export development that must make a structural impact on the economy should focus on the non-oil exports; that is, all the categories of exports mentioned above excluding exports of crude oil and petroleum products.

With this simple definition of exports, there is need to explain what export-led growth implies. The concept implies an economy whose growth is dominated by the expansion of exports. The expansion in exports must be sustained and this will be brought about if the export multiplier is high and a substantial proportion of export proceeds ploughed back to increase the economy's capacity. The export multiplier is the ratio of the increase in national income, resulting from an increase in exports, to the increase in exports. An export-led growth connotes the implementation of some policies that make an economy successful in developing its export markets (Krueger, 1985: 20-22). Such policies give incentives to economic operators to earn and/or save foreign exchange, while avoiding discriminatory incentives across commodity groups.

A concept that is usually considered together with export-led growth, particularly in designing an industrial development strategy, is import-substitution which is a strategy to reduce the imports of consumer goods and produce them domestically. While balance of payments problems have induced the adoption of an import-substitution strategy, the main motivation for it has been the desire to encourage rapid industrialization and economic development (Jhingan, 1995: 449-457). The policy measures usually adopted to pursue import-substitution strategies include the use of import duties, quotas and multiple exchange rates as price-protective devices, while tax exemptions and subsidies are applied to reduce costs in import-competing industries. Developing countries usually start their industrial development with import-substitution strategies and subsequently shift to the export-led growth strategies. One might then want to know what is wrong with the former development strategy. The evidence is that industrial development improves under the two strategies, but it tends to be much better and sustainable under the export promotion strategy. In addition, export promotion tends to reduce dependence on the international economy as the increase in foreign exchange earnings and diversification of export markets induces greater flexibility of the economy. But, an import-substitution strategy, rather than reduce dependence on the international economy as it is designed to do, actually increases international dependence because the activities involved are usually import-intensive and cannot be sustained without continuous importation of both intermediate and capital goods (Krueger, Ibid).

2.2 Exports and Economic Growth

I have indirectly pointed to the strong relationship between export promotion and growth in the previous sub-section. Empirical studies have been conducted at the international level to establish the strong link between export growth and the rate of growth of the GDP. Obadan (1994: 16-19) cited, for example, the studies by Krueger (1983) and the World Bank (1987). Krueger examined the relationship between the growth of exports and the growth of the GDP for a group of ten developing countries and found that an increase in the growth rate of export earnings of one percentage point annually was associated with an increase in the rate of growth of GDP of about 0.1 percentage point (Krueger, Ibid 6). Also, it was found in the same study that shifting to an export promotion strategy resulted in a much better performance in the country's export earnings. The World Bank's study results published in 1987 were more comprehensive and supported the earlier studies. The study grouped 41 developing countries under four trade policy regimes: strongly outward-oriented, moderately outward-oriented, moderately inward-oriented and strongly inward-oriented. For each of the sub-periods, 1963 – 1973 and 1973 – 1985, the three strongly outward-oriented economies (Singapore, South Korea and Hong Kong) were excellent performers in terms of export growth and overall economic performance. During 1973 – 1985, when output growth slowed down all over the world because of the two-petroleum price shocks, these three countries managed to record satisfactory increases in output per head. The study also showed that countries that switched from moderately outward to moderately inward-oriented policies slipped downwards in the growth ranking for 1973 – 1985. Similarly, two of the slowest growing countries during 1963 – 1973 moved up remarkably in the ranking for 1973 – 1985, having switched from strongly-inward to moderately outward policies. The study by Otani and Villanueva (1989: 41-43) confirmed these findings. In their study, which focused on the factors explaining the long term growth of per capital real GNP in 55 developing countries during 1970 – 1985, they found that the most important contributing factor to growth was the expansion of exports which accounted for over 95% of growth in the sample countries.

Rapid export expansion provides

some important conditions for high and sustained growth performance (Uduebo, 1994: 50-52). It fills a resource gap in an economy by providing foreign exchange needed to acquire imported raw materials, capital goods and other facilities for production, providing the government with enhanced revenue resources through taxation for improving domestic investment and enabling many countries to deal effectively with the external debt problems of recent years. An export promotion policy can result in a viable industrial take-off characterized by export diversification in contrast to dependence on one or a few commodities, as well as facilitating forward and backward integration among the various sectors of the economy. Another way in, which a strong export sector enhances, overall economic performance is through employment generation and development of technical skills. For the developing countries, a well-designed export promotion strategy should utilize the abundant labour resources of their economies and thereby reduce poverty. Such a development should also enhance the development of new technical skills and managerial expertise. Finally, an effective export promotion strategy should stimulate technological development in the economy. Initially, such technological growth would emanate from the adaptation of imported technologies. Subsequently, indigenous technologies start to grow when local resources are packaged to produce domestic inputs formerly imported by local industries.

It should be observed that an export-led growth development strategy is not bound to be successful unless predicated on the design and implementation of the appropriate and coherent economic policies. To be successful, it should be consistent with the overall trade and industrial policies of the country. Other desirable policy elements include the institution of appropriate macroeconomic policies, the establishment of effective institutions for policy implementation and the identification of an appropriate role for the government. If these conditions do not prevail, an export-led growth strategy is unlikely to be successful. Obadan (1994: 5-5) and Ojo (1989) have also stressed some international developments which could hamper the contributions of an export-led growth strategy. These include the increased protectionism in the industrial countries, the increased competition faced by primary commodities in the world markets from the rapid development of synthetics and other substitutes in the industrial countries, as well as the increased risk of external shocks. In other words, both the domestic and international environments of countries have changed markedly and effective export promotion strategies should be conceived in that dynamic setting.

2.3 Export Development Strategies

Countries that have pursued strong export promotion strategies have usually adopted two categories of policies or appropriate combinations of the two categories. The first category consists of policies to eliminate existing anti-export trade bias, particularly quantitative controls on trade and exchange transactions. The second category of policies includes those that provide export incentives and subsidies for exporters as a means of offsetting discriminatory practices against exports. However, for practical purposes and to evaluate such strategies in specific situations, we can categorize export promotion strategies into six groups. These are:

(i) **Comprehensive Economic Reforms:** Recent attempts at vigorous export promotion have been made through the adoption of comprehensive economic policy reforms which are expected to be favorable to export performance. The Structural Adjustment Programmes (SAP) adopted by many developing countries in the last decade were aimed at restoring domestic and external balances through fiscal and monetary policy reforms and exchange rate adjustments. Specifically, a market-based exchange rate regime is expected to remove the over-valuation of the domestic currency and thereby stimulate exports.

(ii) **Trade/Exchange Reforms:** These are normally part of the comprehensive economic policy reforms mentioned above. These reforms include the removal of the quantitative restrictions, as well as regulations and controls that hinder exports. As indicated earlier, the reform of exchange rate policy is aimed at eliminating currency over-valuation and enhancing the price competitiveness of locally produced goods in the world export markets.

(iii) **Fiscal And Financial Incentives:** The fiscal and other financial incentives are designed to increase the gross receipts from the exports of goods and services, reduce the production costs of exporters and reduce their tax liabilities. This group of incentives usually involves the administration of export development funds, grants and other subsidies.

(iv) **Monetary Incentives:** Monetary incentives are provided to exporters mainly through export financing schemes. These are designed in recognition of the exporters' needs for short, medium and long-term financing for various transactions. These financing schemes are managed through specialized agencies or through the conventional banking system arrangements.

(v) **Institutional support:** In order to implement effectively export promotion policy measures, specialized agencies have been established to administer incentives and organize potential exporters. Usually, a national agency is set up to have an overview of the export promotion strategies. Others, such as Export-Import Banks and Export Processing Zones Authorities are established to execute specific policy measures to promote exports. Publicity arrangements such as the organization of international trade fairs, establishment of agencies for tourism development, setting up of trading desks in overseas countries and the sending of trade missions abroad are some of the means of providing strong institutional support for export promotion policies.

(vi) **Bilateral/Multilateral Agreements:** Many countries enter into bilateral economic agreements with foreign countries which provide opportunities for enhancing bilateral trade in selected goods and services. In addition, many developing countries, in particular, subscribe to international trade agencies such as the World Trade Organization (WTO) and United Nations Conference on Trade and Development (UNCTAD) with a view to protecting their interests in terms of accessibility of export products to the world markets.

3.0 SOME POLICY ISSUES IN NON-OIL EXPORTS PROMOTION

3.1 Foreign Exchange Policy

The deregulation of the foreign exchange market, which was a major plank of the economic reform programme that began in the mid 80s, was a key policy measure enunciated principally to boost the international competitiveness of Nigeria exports. Theoretically, the currency devaluation that resulted from the reform should have led to a dramatic improvement in the quantum of exports. But this was not the case.

The difficulty is that the Nigerian economy lacked (and still lacks) the structure and capacity to respond to the robust opportunities and incentives generated by the devaluation. This is, perhaps, why in spite of the series of currency devaluation, there has not been any marked improvement in the quantum of non-oil exports. It, therefore, seems to me that the use of currency devaluation as an instrument of enhancing the international competitiveness of exports can only be of limited effectiveness in the Nigerian environment.

The Nigerian experience has been that, rather than boosts exports, currency devaluation has contributed significantly to the worsening of poverty conditions because of the import dependent nature of the economy.

It is, thus my convictions that whereas the theoretical position of the impact of devaluation on export competitiveness cannot be faulted, it is significant that the economy should be appropriately positioned, structurally, to make devaluation beneficial to the export sector. Otherwise, we should continue to have a recurring cycle of currency devaluation, high inflation, collapse of real incomes, sharp decline in purchasing power, increase in unemployment and the worsening of poverty conditions.

This scenario underscores the imperative of appropriate sequencing of policies to achieve the desired results. It is, thus, crucial to achieve the capacity for export expansion before devaluation can be effective as a policy instrument to boost exports.

3.2 Industrial Policy

An appropriate industrialization strategy is a critical element in export competitiveness. The new thinking in development literature is to pursue an outward oriented industrialization strategy as a means of enhancing economic growth and development. In other words, an export led development policy strategy, as against the import substitution strategy should be pursued. As earlier indicated, the import substitution strategy was a product of the oil boom, which is evidently no longer sustainable.

In the light of the above, an outward oriented industrialization strategy is, the best strategy to enhance the export competitiveness of the Nigerian economy. This presupposes the adoption of well-targeted packages of incentives to support the sectors of the economy in which we have a competitive strength. This invariably will be resource-based industry such as Agro-allied industries, Oil and Gas, Textiles, Beverages, etc.

3.3 Trade Policy

In order to enhance the competitiveness of the export sector, an appropriate trade policy regime must be put in place. The trade policy regime should be such that would be supportive of the export sector, particularly with regard to facilitating the access to imported inputs required for the production of exportable. Specifically, exporters must have access to inputs at international competitive prices. Therefore, inputs into export oriented industries should be free of duty and, possibly, other indirect taxes.

In this connection, I would like to emphasize the imperative to accelerate the completion of the Export Processing Zones (EPZ). The EPZs have enormous potentials to promote the competitiveness of exports, if properly implemented, by virtue of its insulation from the shackles of the Nigerian public sector bureaucracy.

3.4 Policy Stability and Consistency

The stability, predictability and credibility of policies, including Trade Policy Regimes, are critical to induce export investments. This is very important because major export investments often involve huge capital, most of which will have to be expanded as sunk cost.

As is well known, policy instability or any policy that lacks credibility tends to result, ultimately, in policy ineffectiveness. It is, therefore, important that policies are credible, transparent, stable and consistent.

4. PROSPECTS AND CONCLUSION

Recent statistics from the World Trade Organization (WTO) in Geneva revealed that Nigerian Exports increased from N345.36m in 1997, N442.93m in 1998, N1.56 billion in 1999 to N1.53 billion in the first half of 2000. This clearly shows that non-oil export are witnessing a resurgence probably due to democracy and deliberate policies of President Olusegun Obasanjo's government to promote better environment and build solid goodwill for Nigeria.

Key policy thrust of government has been the review and refocusing of the existing export incentives and improvement in their implementation guidelines. The principal incentive schemes are:

(a) Manufacture-In-Bond Scheme:

The Manufacture-In-Bond Scheme is designed to encourage manufacturers to import duty free raw material inputs and other intermediate products whether prohibited or not for the production of exportable goods backed by a Bond issued by any recognized Bank, Insurance Company or NEXIM. The Bond will be discharged after evidence of exportation and repatriation of foreign exchange has been produced.

In order to make participation under the MIBS as painless as possible, the requirement for dedicating a separate production line and warehouse to the scheme has been removed this year.

(b) Duty Drawback Scheme (DDS)

The Duty Drawback Scheme provides for refund of duties/ surcharges on raw materials including packing and packaging materials used for the manufacture of products upon effective exportation of the final product. Duty Drawback Scheme shall give automatic refunds (60%) an initial screening by the Duty Drawback Committee and upon the presentation of a performance Bond from a recognized Bank or Insurance Company.

(c) Export Expansion Grant Scheme (EEGS)

This Scheme provides for cash inducement to exporters who have exported a minimum of five hundred thousand Naira (N500,000.00) worth of processed products. The Export Expansion Grant which used to be 10% has been raised in Year 2001 to 20% of the total annual export turnover.

(d) Export Development Fund Scheme (EDFS)

The scheme provides financial assistance to private sector exporting companies to cover part of their initial expenses in respect of the following export promotion activities:

* participation in training courses, symposia, seminars and workshops in respect of export promotion;
* advertising and publicity campaigns in foreign markets;
* export market research and studies;
* product design and consultancy;
* participation in trade missions, buyer-oriented activities, overseas trade-fairs, exhibitions and sales promotions;
* cost of collecting trade information; and
* backing up the deveolopment of export oriented industries..

Another similar policy measure of monumental market implications for the nation's non-oil exports had been fostered by the United States government with the enactment of the Trade and Development Act 2000, containing the African Growth and Opportunity Act (AGOA).

An inter-ministerial committee headed by the Hon. Minister of Commerce has been set-up by the Federal Government to oversee how the country can tap from the abundant benefits promised by the Act to the nation's non-oil exports. Other policy measures put in place by the Federal Government in socio-economic rejuvenation engagement through non-oil export were the completion of the Calabar Export Processing Zone with over N5.0 billion to provide enabling environment for local entrepreneurs to pursue their exports promotion agenda, the approval of an airport-based EPZ for Kano and creation of a border free zone in the border town of Maitegeri, near Gumel in Jigawa State.

Essentially, these initiatives taken at the domestic and US environment, will surely serve as a new platform by which those engaged in non-oil exports can leverage their operations, penetrate and position their products effectively in the global market and substantially improve on the figures contained in the WTO statistics.

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Structure of the Nigerian Economy (2000)

Sector	Contribution to GDP (%)
Agriculture	41.5
Crude Petroleum	10.4
Mining	0.3
Manufacturing	6.0
Construction	2.1
Distributive Trade	11.6
Finance	9.6
Transport	3.1
Government Services	9.4
Others	6.0
Total	**100.0**

Source: CBN Annual Report and Statement of Account 31st December, 2000.

Annex II

Contributions of Oil and Non-oil Exports to Total Export Earnings

Year	Non-oil Export (%)	Oil Export (%)
1991	4.0	96
1992	2.0	98
1993	3.0	97
1994	3.0	97
1995	3.0	97
1996	2.0	98
1997	2.0	98
1998	4.5	95.5
1999	2.0	98
2000	1.3	97.7

Source: CBN Annual Report And Statement of Accounts for different years.

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